



Steve Tshwete Local Municipality
Annual Financial Statements
for the year ended 30 June 2015

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

Legal form of entity	Local Municipality
Municipal demarcation code	MP313
Grading of local authority	Grade 4
Capacity of local authority	High Capacity
Nature of business and principal activities	The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates and general services - All types of services rendered by the municipality, excluding the following; Housing Services - Supply housing to the community and includes the rental of units owned by the municipality to public and staff; Waste Management Services - The collection, disposal and purifying of waste, refuse and sewerage; Electricity Services - Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality; and Water Services - Supplying water to the public
Executive Mayor	Cllr MAS Masina
Speaker	Cllr RM Xaba
Chief whip	Cllr BP Ndala
Mayoral committee	Cllr NJ Mahlangu Cllr EF Mathebula Cllr DJ Motsepe Cllr SD Nkadimeng Cllr EP Nkosi Cllr H Pilodia
Councillors	Cllr E Du Toit Cllr J Dyason Cllr AS Grobler Cllr PM Hadebe Cllr EA Jele Cllr TR Langeveld Cllr DM Longman Cllr SA Lukhele Cllr NJ Mahlangu Cllr TB Mahlangu Cllr O Malinga Cllr LI Manzini Cllr PJ Masilela Cllr MA Masina Cllr EF Mathebula Cllr J Matshiane Cllr M Mbatiwe Cllr LE Mkhuma Cllr NJ Mlambo Cllr MTE Mnguni

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

Cllr MR Mnguni
Cllr SM Mnguni
Cllr P Mobango
Cllr SM Mogola
Cllr BH Mokoena
Cllr KN Monareng
Cllr TM Morufane
Cllr MS Motebu
Cllr DJ Motsepe
Cllr ZD Mtshweni
Cllr BP Ndala
Cllr TG Ndlangamandla
Cllr HF Niemann
Cllr SD Nkadimeng
Cllr EP Nkosi
Cllr ME Nyambi
Cllr H Pilodia
Cllr JP Pretorius
Cllr GHE Romjin
Cllr SJ Roos
Cllr MJ Sekgwele
Cllr MJ Selala
Cllr MT Selala
Cllr PM Shongwe
Cllr PN Sithole
Cllr DJ Skhosana
Cllr BC Skosana
Cllr J Skosana
Cllr A Struwig
Cllr PP Tau
Cllr PI Thwala
Cllr KPJ Uys
Cllr TN Van Zyl
Cllr S Wait
Cllr RM Xaba
Cllr SS Zitha

Accounting Officer

SM Mnguni (Acting)

Chief Finance Officer (CFO)

E. Wassermann

Registered office

Civic Centre
Wanderers Avenue
Middelburg
1050

Postal address

P.O. Box 14
Middelburg
1050

Bankers

ABSA Bank
Nelspruit

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

Auditors

Auditor-General of South Africa
Nelspruit

Attorneys

Johan Alberts Van Deventer and Campher
Mohube, Setswalo Mabusela and Nkgadima JV

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Index

The reports and statements set out below comprise the annual financial statements presented to the council:

Index	Page
Accounting Officer's Responsibilities and Approval	5
Audit Committee Report	6
Accounting Officer's Report	7
Statement of Financial Position	8
Statement of Financial Performance	9
Statement of Changes in Net Assets	10
Cash Flow Statement	11
Statement of Comparison of Budget and Actual Amounts	12 - 16
Appropriation Statement	17 - 22
Accounting Policies	23 - 50
Notes to the Annual Financial Statements	51 - 101

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
EPWP	Expected Public Works Program
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MSIG	Municipal System Improvement Grant
SALGA	South Africa Local Government Association

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's auditors.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on pages 7 to 101, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed by

Accounting Officer
Mr. SM Mnguni (Acting)

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2015.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet at least 4 times per annum as per its approved terms of reference. During the current year 5 meetings were held.

Name of member	Number of meetings attended
Mr. MA Mmapheho (Chairperson)	5
Mr. VK Chuene	5
Mr. T Gafane	5
Mr. SA Ngwenya	5
Mr. L Langalibalele	5
Advocate L Thubakgale	5

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report of the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Date _____

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2015.

1. Review of activities

Main business and operations

The municipality is engaged in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of services to the community which includes rates and general services, rental of units out by municipality, waste management services, disposal and purifying of waste (refuse and sewerage), electricity and water services.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated surplus of R 6,349,763,294 and that the municipality's total assets exceed its liabilities by R 6,349,763,294.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the Generally Recognised Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Mr WD Fouche (1 July 2014 to 31 January 2015)

Mr SM Mnguni (Acting from 1 February 2015)

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	98,935,106	82,354,766
Consumer receivables	4	60,533,069	46,422,955
Receivables from exchange transactions	5	12,779,541	13,405,014
Receivables from non-exchange transactions	6	16,936,529	13,484,579
VAT receivable	7	31,292,987	27,916,416
Operating lease asset	8	2,321,747	3,342,169
Investments	9	410,000,000	350,000,000
Inventories	10	172,198,024	158,423,960
Long term loans	11	110,780	202,796
		805,107,783	695,552,655
Non-Current Assets			
Long term loans	11	47,532	84,088
Investment property	12	24,937,113	24,937,113
Property, plant and equipment	13	5,974,833,168	5,952,118,534
Intangible assets	14	1,895,644	2,832,019
		6,001,713,457	5,979,971,754
Total Assets		6,806,821,240	6,675,524,409
Liabilities			
Current Liabilities			
Payables from exchange transactions	15	185,256,488	152,512,599
Payables from non-exchange transactions	16	2,330,857	2,907,003
Consumer deposits	17	71,952,206	64,930,122
Finance lease obligation	18	173,542	216,590
Unspent conditional grants and receipts	19	1,993,207	8,624,089
Provisions	20	2,557,938	6,687,832
Long term liabilities	21	11,730,504	12,952,730
Employee benefit obligation	22	2,441,268	2,712,000
Long service award	23	1,170,704	1,816,001
		279,606,714	253,358,966
Non-Current Liabilities			
Finance lease obligation	18	112,457	281,168
Provisions	20	14,782,318	6,083,929
Long term liabilities	21	77,107,026	88,839,531
Employee benefit obligation	22	70,954,719	67,713,000
Long service award	23	14,494,712	14,929,999
		177,451,232	177,847,627
Total Liabilities		457,057,946	431,206,593
Net Assets		6,349,763,294	6,244,317,816
Accumulated surplus		6,349,763,294	6,244,317,816

* See Note 45

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	26	689,564,770	626,060,991
Rental of facilities and equipment		31,842,871	29,537,110
Interest received - trading	27	2,111,142	2,050,541
Income from agency services		15,909,082	14,574,227
Licences and permits		9,119,306	8,440,761
Investment revenue	28	24,304,500	22,475,654
Other income	29	68,175,652	98,907,724
Total revenue from exchange transactions		841,027,323	802,047,008
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	30	282,793,099	264,425,808
Transfer revenue			
Government grants and subsidies	31	174,797,224	180,279,146
Public contributions and donations	32	53,277,529	51,840,472
Fines		13,868,678	14,349,255
Total revenue from non-exchange transactions		524,736,530	510,894,681
Total revenue		1,365,763,853	1,312,941,689
Expenditure			
Employee related costs	33	(330,847,428)	(308,716,531)
Remuneration of councillors	34	(17,893,745)	(17,087,587)
Transfer payments - Other		(124,557)	-
Depreciation and amortisation	35	(149,055,537)	(145,546,992)
Impairment loss/ Reversal of impairments	36	(5,224,731)	(4,134,329)
Finance costs	37	(9,718,816)	(10,970,000)
Rentals		(17,653,607)	(15,557,179)
Debt impairment	38	(2,060,164)	(11,448,624)
Collection costs		(302,545)	(248,954)
Repairs and maintenance		(54,453,294)	(49,666,196)
Bulk purchases	39	(326,861,937)	(296,646,672)
Contracted services	40	(34,458,036)	(28,494,940)
Grants and subsidies paid	41	(63,791,397)	(57,517,288)
Contributions to provisions		(16,724,366)	(16,648,233)
General expenses	42	(231,422,392)	(176,606,790)
Total expenditure		(1,260,592,552)	(1,139,290,315)
Operating surplus		105,171,301	173,651,374
Gain (loss) on disposal of assets and liabilities		244,375	(2,506,592)
Surplus for the year		105,415,676	171,144,782

* See Note 45

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	6,070,322,437	6,070,322,437
Adjustments		
Prior year adjustments	2,850,596	2,850,596
Balance at 01 July 2013 as restated*	6,073,173,033	6,073,173,033
Changes in net assets		
Surplus for the year	171,144,783	171,144,783
Total changes	171,144,783	171,144,783
Opening balance as previously reported	6,243,276,934	6,243,276,934
Adjustments		
Prior year adjustments (refer note 45)	1,070,684	1,070,684
Restated* Balance at 01 July 2014 as restated*	6,244,347,618	6,244,347,618
Changes in net assets		
Surplus for the year	105,415,676	105,415,676
Total changes	105,415,676	105,415,676
Balance at 30 June 2015	6,349,763,294	6,349,763,294
Note(s)		

* See Note 45

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		1,236,713,034	1,132,806,950
Grants		174,797,224	178,556,503
Interest income		22,193,358	24,526,195
		<u>1,433,703,616</u>	<u>1,335,889,648</u>
Payments			
Employee costs		(348,741,173)	(325,804,118)
Suppliers		(657,955,720)	(647,593,968)
Finance costs		(9,718,816)	(10,970,000)
Grants paid		(63,791,397)	(57,517,288)
		<u>(1,080,207,106)</u>	<u>(1,041,885,374)</u>
Undefined difference compared to the cash generated from operations note		3	2
Net cash flows from operating activities	44	<u>353,496,513</u>	<u>294,004,276</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(265,980,414)	(257,822,061)
Proceeds from sale of property, plant and equipment	13	-	91,306
Purchase of other intangible assets	14	-	(1,921,631)
Purchase of investments	14	(60,000,000)	(2,000,000)
Proceeds from sale of financial assets		128,571	130,458
Net cash flows from investing activities		<u>(325,851,843)</u>	<u>(261,521,927)</u>
Cash flows from financing activities			
Repayment of long term liabilities		(12,954,731)	(11,699,116)
Movement in long service award		(1,080,584)	3,005,923
Movement in opost employment benefit		2,970,987	801,292
Finance lease payments		-	368,638
Net cash flows from financing activities		<u>(11,064,328)</u>	<u>(7,523,263)</u>
Net increase/(decrease) in cash and cash equivalents		16,580,342	24,959,086
Cash and cash equivalents at the beginning of the year		82,354,766	57,395,683
Cash and cash equivalents at the end of the year		<u>98,935,106</u>	<u>82,354,766</u>
Cash and cash equivalents at the end of the year	3	<u>197,870,214</u>	<u>164,709,535</u>

* See Note 45

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	688,453,514	(1,476,373)	686,977,141	689,564,770	2,587,629	
Rental income	35,361,329	(757,372)	34,603,957	31,842,871	(2,761,086)	58
Interest received - trading	1,497,709	389,278	1,886,987	2,111,142	224,155	58
Income from agency services	13,545,608	1,000,000	14,545,608	15,909,082	1,363,474	
Licences and permits	8,143,940	33,615	8,177,555	9,119,306	941,751	58
Other income - (rollup)	70,285,598	(49,268,045)	21,017,553	68,175,652	47,158,099	58
Interest received - investment	20,693,700	775,619	21,469,319	24,304,500	2,835,181	
Total revenue from exchange transactions	837,981,398	(49,303,278)	788,678,120	841,027,323	52,349,203	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	272,882,246	5,925,466	278,807,712	282,793,099	3,985,387	
Transfer revenue						
Government grants and subsidies	235,390,249	(65,260,435)	170,129,814	174,797,224	4,667,410	
Public contributions and donations	45,770,680	12,690,915	58,461,595	53,277,529	(5,184,066)	58
Fines, penalties and forfeits	6,707,900	7,500,974	14,208,874	13,868,678	(340,196)	
Total revenue from non-exchange transactions	560,751,075	(39,143,080)	521,607,995	524,736,530	3,128,535	
Total revenue	1,398,732,473	(88,446,358)	1,310,286,115	1,365,763,853	55,477,738	
Expenditure						
Employee related costs	(344,431,966)	(1,665,049)	(346,097,015)	(330,847,428)	15,249,587	
Remuneration of councillors	(18,817,670)	106,400	(18,711,270)	(17,893,745)	817,525	
Transfer payments - Other	-	-	-	(124,557)	(124,557)	
Depreciation and amortisation	(176,251,700)	-	(176,251,700)	(149,055,537)	27,196,163	
Impairment loss/ Reversal of impairments	-	-	-	(5,224,731)	(5,224,731)	
Finance costs	(28,080,922)	-	(28,080,922)	(9,718,816)	18,362,106	58
Lease rentals on operating lease	(21,273,608)	939,226	(20,334,382)	(17,653,607)	2,680,775	
Debt impairment	(8,033,795)	(8,000,000)	(16,033,795)	(2,060,164)	13,973,631	58
Collection costs	(295,000)	-	(295,000)	(302,545)	(7,545)	
Repairs and maintenance	(62,240,610)	2,630,923	(59,609,687)	(54,453,294)	5,156,393	
Bulk purchases	(340,072,243)	928,465	(339,143,778)	(326,861,937)	12,281,841	
Contracted services	(38,855,561)	821,882	(38,033,679)	(34,458,036)	3,575,643	
Grants and subsidies paid	(62,503,456)	(1,889,836)	(64,393,292)	(63,791,397)	601,895	
Contribution to provisions	(2,243,317)	-	(2,243,317)	(16,724,366)	(14,481,049)	
General expenses	(249,286,323)	69,184,769	(180,101,554)	(231,422,392)	(51,320,838)	
Total expenditure	(1,352,386,171)	63,056,780	(1,289,329,391)	(1,260,592,552)	28,736,839	
Operating surplus	46,346,302	(25,389,578)	20,956,724	105,171,301	84,214,577	

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Gain on disposal of assets and liabilities	150,000	650,000	800,000	244,375	(555,625)	
Surplus before taxation	46,496,302	(24,739,578)	21,756,724	105,415,676	83,658,952	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	46,496,302	(24,739,578)	21,756,724	105,415,676	83,658,952	

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	47,239,000	-	47,239,000	172,198,024	124,959,024	
Long term loans	-	-	-	110,780	110,780	
Operating lease asset	-	-	-	2,321,747	2,321,747	
Receivables from exchange transactions	20,486,000	-	20,486,000	12,779,541	(7,706,459)	
Receivables from non-exchange transactions	-	-	-	16,936,529	16,936,529	
VAT receivable	-	-	-	31,292,987	31,292,987	
Consumer debtors	40,552,000	-	40,552,000	60,533,071	19,981,071	
Investments	513,000,000	(159,191,000)	353,809,000	410,000,000	56,191,000	
Cash and cash equivalents	42,762,000	16,586,000	59,348,000	98,935,106	39,587,106	
	664,039,000	(142,605,000)	521,434,000	805,107,785	283,673,785	
Non-Current Assets						
Investment property	-	-	-	24,937,113	24,937,113	
Property, plant and equipment	6,075,723,000	82,335,000	6,158,058,000	5,982,675,252	(175,382,748)	
Intangible assets	1,004,000	-	1,004,000	(5,946,442)	(6,950,442)	
Long term loans	-	-	-	47,532	47,532	
	6,076,727,000	82,335,000	6,159,062,000	6,001,713,455	(157,348,545)	
Total Assets	6,740,766,000	(60,270,000)	6,680,496,000	6,806,821,240	126,325,240	
Liabilities						
Current Liabilities						
Long term liabilities	19,285,000	-	19,285,000	11,730,504	(7,554,496)	
Finance lease obligation	-	-	-	173,542	173,542	
Payables from exchange transactions	152,865,000	-	152,865,000	185,256,488	32,391,488	
Taxes and transfers payable (non-exchange)	10,432,000	-	10,432,000	2,330,857	(8,101,143)	
Consumer deposits	68,608,000	-	68,608,000	71,952,206	3,344,206	
Employee benefit obligation	-	-	-	2,441,268	2,441,268	
Unspent conditional grants and receipts	-	-	-	1,993,207	1,993,207	
Provisions	-	-	-	2,557,938	2,557,938	
Long service award	-	-	-	1,170,704	1,170,704	
	251,190,000	-	251,190,000	279,606,714	28,416,714	
Non-Current Liabilities						
Long term liabilities	345,247,000	46,040,000	391,287,000	77,107,026	(314,179,974)	
Finance lease obligation	-	-	-	112,457	112,457	
Employee benefit obligation	-	-	-	70,954,719	70,954,719	
Provisions	99,579,000	-	99,579,000	14,782,318	(84,796,682)	
Long service award	-	-	-	14,494,712	14,494,712	
	444,826,000	46,040,000	490,866,000	177,451,232	(313,414,768)	
Total Liabilities	696,016,000	46,040,000	742,056,000	457,057,946	(284,998,054)	

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets	6,044,750,000	(106,310,000)	5,938,440,000	6,349,763,294	411,323,294	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	6,044,750,000	(106,310,000)	5,938,440,000	6,349,763,294	411,323,294	

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	1,091,392	(11,951)	1,079,441	-	(1,079,441)	
Grants	235,391	(65,261)	170,130	-	(170,130)	
Interest income	22,191	1,165	23,356	-	(23,356)	
	1,348,974	(76,047)	1,272,927	-	(1,272,927)	
Payments						
Suppliers	(940,771)	(63,799)	(1,004,570)	-	1,004,570	
Finance costs	(28,081)	-	(28,081)	-	28,081	
Other payments	(62,503)	(1,890)	(64,393)	-	64,393	
	(1,031,355)	(65,689)	(1,097,044)	-	1,097,044	
Net cash flows from operating activities	317,619	(141,736)	175,883	-	(175,883)	
Cash flows from investing activities						
Proceeds from sale of property, plant and equipment	150	650	800	-	(800)	
Decrease (increase) in non-current investments	(205,000)	175,000	(30,000)	-	30,000	
Proceeds from sale of other asset 3	(186,399)	(83,835)	(270,234)	-	270,234	
Net cash flows from investing activities	(391,249)	91,815	(299,434)	-	299,434	
Cash flows from financing activities						
Borrowings long term	80,000	46,040	126,040	-	(126,040)	
Increase (decrease) in consumer deposits	5,242	-	5,242	-	(5,242)	
Repayment of borrowing	(16,709)	-	(16,709)	-	16,709	
Net cash flows from financing activities	68,533	46,040	114,573	-	(114,573)	
Net increase/(decrease) in cash and cash equivalents	(5,097)	(3,881)	(8,978)	-	8,978	
Cash and cash equivalents at the beginning of the year	47,859	20,467	68,326	-	(68,326)	
Cash and cash equivalents at the end of the year	42,762	16,586	59,348	-	(59,348)	

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
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Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2015											
Financial Performance											
Property rates	272,882,246	5,925,466	278,807,712	-		278,807,712	282,793,099		3,985,387	101 %	104 %
Service charges	688,453,514	(1,476,373)	686,977,141	-		686,977,141	689,564,770		2,587,629	100 %	100 %
Investment revenue	20,693,700	775,619	21,469,319	-		21,469,319	24,304,500		2,835,181	113 %	117 %
Transfers recognised - operational	189,619,569	(77,951,350)	111,668,219	-		111,668,219	115,805,992		4,137,773	104 %	61 %
Other own revenue	131,554,424	(16,010,637)	115,543,787	-		115,543,787	141,271,106		25,727,319	122 %	107 %
Total revenue (excluding capital transfers and contributions)	1,303,203,453	(88,737,275)	1,214,466,178	-		1,214,466,178	1,253,739,467		39,273,289	103 %	96 %
Employee costs	(344,431,966)	(1,665,049)	(346,097,015)	-	-	(346,097,015)	(330,847,428)	-	15,249,587	96 %	96 %
Remuneration of councillors	(18,817,670)	106,400	(18,711,270)	-	-	(18,711,270)	(17,893,745)	-	817,525	96 %	95 %
Debt impairment	(8,033,795)	(8,000,000)	(16,033,795)			(16,033,795)	(2,060,164)	-	13,973,631	13 %	26 %
Depreciation and asset impairment	(176,251,700)	-	(176,251,700)			(176,251,700)	(154,280,268)	-	21,971,432	88 %	88 %
Finance charges	(28,080,922)	-	(28,080,922)	-	-	(28,080,922)	(9,718,816)	-	18,362,106	35 %	35 %
Materials and bulk purchases	(340,072,243)	928,465	(339,143,778)	-	-	(339,143,778)	(326,861,937)	-	12,281,841	96 %	96 %
Transfers and grants	(62,503,456)	(1,889,836)	(64,393,292)	-	-	(64,393,292)	(63,791,397)	-	601,895	99 %	102 %
Other expenditure	(374,194,419)	73,576,800	(300,617,619)	-	-	(300,617,619)	(355,138,797)	-	(54,521,178)	118 %	95 %
Total expenditure	(1,352,386,171)	63,056,780	(1,289,329,391)	-	-(1,289,329,391)	(1,260,592,552)	(1,260,592,552)	-	28,736,839	98 %	93 %
Surplus/(Deficit)	(49,182,718)	(25,680,495)	(74,863,213)	-		(74,863,213)	(6,853,085)		68,010,128	9 %	14 %

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	45,770,680	12,690,915	58,461,595	-		58,461,595	58,991,232		529,637	101 %	129 %
Contributions recognised - capital and contributed assets	49,908,340	(11,749,998)	38,158,342	-		38,158,342	53,277,529		15,119,187	140 %	107 %
Surplus (Deficit) after capital transfers and contributions	46,496,302	(24,739,578)	21,756,724	-		21,756,724	105,415,676		83,658,952	485 %	227 %
Surplus/(Deficit) for the year	46,496,302	(24,739,578)	21,756,724	-		21,756,724	105,415,676		83,658,952	485 %	227 %

Capital Expenditure and Funds Sources

Total capital expenditure	236,368,760	37,758,603	274,127,363	-		274,127,363	258,193,899		(15,933,464)	94 %	109 %
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Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash Flows											
Net cash from (used) operating	317,619	(147,735)	169,884	-		169,884	353,496,513		353,326,629	208,081 %	111,296 %
Net cash from (used) investing	(391,249)	97,815	(293,434)	-		(293,434)	(325,851,843)		(325,558,409)	111,048 %	83,285 %
Net cash from (used) financing	68,532	46,040	114,572	-		114,572	(11,064,328)		(11,178,900)	(9,657)%	(16,145)%
Net increase/(decrease) in cash and cash equivalents	(5,098)	(3,880)	(8,978)	-		(8,978)	16,580,342		16,589,320	184,677)%	325,232)%
Cash and cash equivalents at the beginning of the year	47,859	20,467	68,326	-		68,326	82,354,766		82,286,440	120,532 %	172,078 %
Cash and cash equivalents at year end	42,761	16,587	59,348	-		59,348	98,935,108		(98,875,760)	166,703 %	231,368 %

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2014				
Financial Performance				
Property rates				264,425,808
Service charges				626,060,991
Investment revenue				22,475,654
Transfers recognised - operational				120,038,817
Other own revenue				167,859,618
Total revenue (excluding capital transfers and contributions)				1,200,860,888
Employee costs	-	-	-	(308,716,531)
Remuneration of councillors	-	-	-	(17,087,587)
Debt impairment	-	-	-	(11,448,624)
Depreciation and asset impairment	-	-	-	(149,681,321)
Finance charges	-	-	-	(10,970,000)
Materials and bulk purchases	-	-	-	(296,646,672)
Transfers and grants	-	-	-	(57,517,288)
Other expenditure	-	-	-	(289,728,885)
Total expenditure	-	-	-	(1,141,796,908)
Surplus/(Deficit)				59,063,980
Transfers recognised - capital				60,240,330
Contributions recognised - capital and contributed assets				51,840,472
Surplus (Deficit) after capital transfers and contributions				171,144,782
Surplus/(Deficit) for the year				171,144,782
Capital Expenditure and Funds Sources				
Total capital expenditure				12,625,519

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Cash Flows				
Net cash from (used) operating				294,004,276
Net cash from (used) investing				(261,521,927)
Net cash from (used) financing				(7,523,263)
Net increase/(decrease) in cash and cash equivalents				24,959,086
Cash and cash equivalents at the beginning of the year				57,395,683
Cash and cash equivalents at year end				82,354,769

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable (service) amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 22.

Effective interest rate

The municipality uses the government bond rate to discount future cash flows.

Allowance for impairment

For receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.3 Investment property (continued)

Cost model

Subsequent to initial measurement investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value, on a straight line basis over the useful life of the property, which is as follows:

Item	Useful life
Land	Indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such a difference is recognised in surplus or deficit when the investment property is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost), unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on a straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30 - 100 years
Community assets	10 - 100 years
Housing development fund	30 - 100 years
Infrastructure assets	5 - 100 years
Land	Indefinite
Other property, plant and equipment	2 - 30 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate; unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit; unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Such a difference is recognised in surplus or deficit when the item is derecognised.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.5 Site restoration and dismantling cost (continued)

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.6 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis to their estimated residual values as follows:

Item	Useful life
Computer software	3 - 10 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. Such a difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measures at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial assets and financial liabilities initially at fair value.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognises the asset; and
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and building elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets in the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.9 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality will not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Statutory receivables

Statutory receivables are receivables that:

- arise from legislation, supporting regulations, or similar means; and
- require settlement by another entity in cash or another financial asset.

Statutory receivables constitute revenue receivable from property rates, fines, penalties, grants and fees charged in terms of legislation.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.13 Statutory receivables (continued)

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using GRAP 9;
- if the transaction is a non-exchange transaction, using GRAP 23;
- if the transaction is not within the scope of either GRAP 9 or GRAP 23, the receivable is recognised when:
 - the definition of an asset is met; and
 - it is probable that future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

The municipality measures a statutory receivable initially at its transaction amount.

The municipality measures all statutory receivables after initial recognition using the cost method.

Under the cost method the amount recognised initially is only changed subsequently to reflect any:

- interest or other charges that may have accrued on the receivable;
- impairment loss; and
- amounts derecognised.

The municipality assesses at the end of each reporting period whether there is objective evidence that a statutory receivable or group of statutory receivables is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default payments are all considered indicators of impairment.

If there is objective evidence that an impairment loss on statutory receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated future cash flows - discounted if the effect of discounting is material - using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal does not result in a carrying amount of the statutory receivable that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where statutory receivables are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such receivables are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

The municipality derecognises a statutory receivable when:

- the rights to the cash flows from the statutory receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable;
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognises the receivable;
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are considered for inclusion within the scope of GRAP 104 or another standard of GRAP. Any difference between the consideration received and amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.14 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises, because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.14 Employee benefits (continued)

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.14 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.15 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
 - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
 - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 48.

Accounting Policies

1.15 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on municipalities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards; and
- fines or other penalties that are imposed for breaches of the legislation.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy, but does not yet have a present obligation to pay that levy.

1.16 Discontinued operations

Discontinued operation is a component of the municipality that has been disposed of and:

- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Discontinued operations (continued)

A component of the municipality is the operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the municipality.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes (Property rates for municipalities)

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Collection charges and penalties

Collection charges and penalty interest are recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements (if applicable).

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by debtors.

Where the municipality collects fines in the capacity of an agent, the fines will not be revenue of the municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue, is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exists in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Service concession arrangements: Grantor

A service concession arrangement is a contractual arrangement between a grantor (the municipality) and an operator in which:

- the operator uses the service concession asset to provide a mandated function on behalf of the municipality for a specified period of time; and
- the operator is compensated for its services over the period of the service concession arrangement.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.20 Service concession arrangements: Grantor (continued)

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:

- is provided by the operator which:
 - the operator constructs, develops, or acquires from a third party; or
 - is an existing asset of the operator.
- is provided by the grantor (municipality) which:
 - is an existing asset of the municipality; or
 - is an upgrade to an existing asset of the municipality.

An asset is provided by the operator, or an upgrade to an existing asset of the municipality is recognised as a service concession asset if:

- the municipality controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price;
- the municipality controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the arrangement.

The municipality measures initially a service concession asset at its fair value.

The municipality recognises a liability where a service concession asset is recognised.

The liability is initially recognised at the same amount as the service concession asset, adjusted by the amount for any consideration from the municipality to the operator, or from the operator to the municipality.

Where the municipality has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition or upgrade of a service concession asset, the liability is accounted for as a financial liability in accordance with GRAP 104.

The payments made to the operator are accounted for according to their substance as:

- a reduction in the liability recognised;
- a finance charge; and
- charges for services provided by the operator.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments are allocated by reference to the relative fair values of the service concession asset and the services. If not, the service component of payments is determined using valuation techniques.

Where the municipality does not have an unconditional obligation to pay cash or another financial asset to the operator, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the liability is accounted for as the unearned portion of revenue arising from the exchange of assets between the municipality and the grantor.

The liability is reduced and revenue recognised according to the substance of the service concession arrangement.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 46 for detail.

1.22 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.22 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

1.26 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments, which are disclosed in note 47.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed if both the following criteria are met:

- contracts are non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.27 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

1.28 Budget information

The approved budget is prepared on the accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.28 Budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.29 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 7 (as revised 2012): Investments in Associates

Paragraph .17 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 5 (revised 2013): Borrowing Costs

Benchmark treatment is to recognise borrowing costs as an expense.

Allowed alternative is to capitalise borrowing costs if it is attributable to the acquisition, construction or production of a qualifying asset. All other instances, expense borrowing costs.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 100 (revised 2013): Discontinued Operations

All accounting, presentation and disclosure requirements with regards to non-current assets held for sale (or disposal groups) have been deleted. The impact of the amendments is:

- Will no longer be required to reclassify assets as held for sale. GRAP 100 now only deals with discontinued operations.
- Certain disclosure must be made if, at the reporting date, management has taken a decision to dispose of a significant asset or a group of assets and liabilities. Will fall under the Standard of GRAP on Presentation of Financial Statements.

Measurement requirements are to be applied prospectively and presentation and disclosure requirements are to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

GRAP 18: Segment Reporting

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The municipality (in this standard referred to as the reporting entity) applies this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the reporting entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- close member of the family of a person;
- management;
- related parties;
- remuneration; and
- significant influence.

The standard sets out the requirements, inter alia, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 11: Consolidation – Special purpose entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot'). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's net assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2016 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2016 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this interpretation need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

Directive 11: Changes in Measurement Bases Following the Initial Adoption of Standards of GRAP

The objective of this directive is to permit the municipality to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this directive allows the municipality, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the municipality elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the municipality made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this directive, the municipality will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the directive is for years beginning on or after 01 April 2015.

The municipality expects to adopt the directive for the first time in the 2016 annual financial statements.

It is unlikely that the directive will have a material impact on the municipality's annual financial statements.

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	42,380	42,380
Bank balances	98,892,726	82,312,386
	<u>98,935,106</u>	<u>82,354,766</u>

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015			2014		
3. Cash and cash equivalents (continued)						
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA BANK (Nelspruit)- Cheque Account 1040-000-077	89,450,780	80,877,105	95,780,173	78,503,556	68,059,552	49,647,860
ABSA BANK (Nelspruit)- Cheque Account 4078-303-563	20,456,926	14,386,659	7,680,443	20,389,170	14,252,833	7,705,443
Total	109,907,706	95,263,764	103,460,616	98,892,726	82,312,385	57,353,303
4. Consumer receivables						
Gross balances						
Rates				30,497,349		26,356,090
Electricity				22,703,557		20,767,275
Water				8,387,166		6,278,017
Sewerage				6,108,454		5,055,133
Refuse				5,477,997		4,591,778
Housing rental				52,856		67,139
VAT, interest and deposits				9,540,171		7,935,563
				82,767,550		71,050,995
Less: Allowance for impairment						
Rates				(8,192,728)		(9,135,675)
Electricity				(6,099,033)		(7,198,453)
Water				(2,253,110)		(2,176,117)
Sewerage				(1,640,962)		(1,752,235)
Refuse				(1,471,597)		(1,591,624)
VAT, interest and deposits				(2,577,049)		(2,773,936)
				(22,234,479)		(24,628,040)
Net balance						
Rates				22,304,618		17,220,415
Electricity				16,604,524		13,568,822
Water				6,134,057		4,101,900
Sewerage				4,467,493		3,302,898
Refuse				4,006,400		3,000,154
Housing rental				67,139		67,139
VAT, interest and deposits				6,948,838		5,161,627
				60,533,069		46,422,955
Included in above is receivables from exchange transactions						
Electricity				16,604,524		13,568,822
Water				6,134,057		4,101,900
Sewerage				4,467,493		3,302,898
Refuse				4,006,400		3,000,154
VAT, interest and deposits				6,948,838		5,161,627
Housing rental				67,139		67,139
				38,228,451		29,202,540

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
4. Consumer receivables (continued)		
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	22,304,618	17,220,415
Net balance	60,533,069	46,422,955
Rates		
Current (0 -30 days)	17,519,409	15,629,600
31 - 60 days	1,951,171	1,438,787
61 - 90 days	1,057,365	880,958
91 - 120 days	757,221	724,481
121 - 150 days	715,560	592,792
> 150 days	8,496,619	7,089,470
	30,497,304	26,356,088
Electricity		
Current (0 -30 days)	19,695,968	17,875,439
31 - 60 days	689,954	760,576
61 - 90 days	384,200	384,331
91 - 120 days	225,564	235,630
121 - 150 days	162,471	98,647
> 150 days	1,545,400	1,412,651
	22,703,557	20,767,274
Water		
Current (0 -30 days)	4,510,539	3,197,201
31 - 60 days	416,201	406,028
61 - 90 days	298,749	206,461
91 - 120 days	188,835	152,776
121 - 150 days	208,463	150,667
> 150 days	2,764,380	2,164,883
	8,387,167	6,278,016
Sewerage		
Current (0 -30 days)	3,662,929	3,112,927
31 - 60 days	359,794	315,774
61 - 90 days	265,533	160,562
91 - 120 days	146,796	115,976
121 - 150 days	126,132	91,406
> 150 days	1,547,270	1,258,516
	6,108,454	5,055,161
Refuse		
Current (0 -30 days)	3,418,120	2,777,742
31 - 60 days	334,817	313,529
61 - 90 days	205,644	177,666
91 - 120 days	130,328	133,655
121 - 150 days	110,829	79,337
> 150 days	1,278,260	1,109,848
	5,477,998	4,591,777

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
4. Consumer receivables (continued)		
Housing rental		
31 - 60 days	33,717	38,807
61 - 90 days	2,751	2,153
91 - 120 days	590	1,992
121 - 150 days	15,797	24,187
	52,855	67,139
VAT, interest and deposits		
Current (0 -30 days)	5,353,636	4,427,441
31 - 60 days	508,182	366,128
61 - 90 days	355,630	251,755
91 - 120 days	216,699	204,277
121 - 150 days	204,237	177,748
> 150 days	2,901,787	2,508,215
	9,540,171	7,935,654

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
4. Consumer receivables (continued)		
Summary of debtors by customer classification		
Households		
Current (0 -30 days)	29,549,624	27,096,387
31 - 60 days	2,342,754	1,985,025
61 - 90 days	1,600,005	1,250,577
91 - 120 days	997,427	1,036,505
121 - 150 days	969,118	824,522
> 150 days	11,994,512	9,849,938
	<u>47,453,440</u>	<u>42,042,954</u>
Less: Allowance for impairment	(6,048,158)	(14,559,564)
	41,405,282	27,483,390
Business		
Current (0 -30 days)	22,869,805	18,244,902
31 - 60 days	1,439,481	1,179,555
61 - 90 days	752,779	632,530
91 - 120 days	498,213	454,823
121 - 150 days	498,436	362,227
> 150 days	5,623,496	4,896,935
	<u>31,682,210</u>	<u>25,770,972</u>
Less: Allowance for impairment	(1,460,878)	(7,863,947)
	30,221,332	17,907,025
Government		
Current (0 -30 days)	1,741,218	1,679,062
31 - 60 days	511,604	475,019
61 - 90 days	217,085	180,780
91 - 120 days	170,395	77,462
121 - 150 days	75,936	28,039
> 150 days	915,667	796,708
	<u>3,631,905</u>	<u>3,237,070</u>
Less: Allowance for impairment	(73,220)	(2,204,528)
	3,558,685	1,032,542
Total		
Current (0 -30 days)	54,160,601	47,020,350
31 - 60 days	4,293,837	3,639,600
61 - 90 days	2,569,871	2,063,887
91 - 120 days	1,666,033	1,568,790
121 - 150 days	1,543,489	1,214,785
> 150 days	18,533,675	15,543,583
	<u>82,767,506</u>	<u>71,050,995</u>
Less: Allowance for impairment	(22,234,479)	(24,628,040)
	60,533,027	46,422,955
Reconciliation of allowance for impairment		
Balance at beginning of the year	(24,628,040)	(29,388,730)
Contributions to allowance	2,339,500	(1,137,692)
Debt impairment written off against allowance	54,061	5,898,382
	(22,234,479)	(24,628,040)

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
4. Consumer receivables (continued)		
Receivables from exchange transactions past due but not impaired		
Receivables from exchange transactions which are less than 1 month past due are not considered to be impaired. At 30 June 2015 and 30 June 2014 all accounts past due were impaired.		
Receivables from exchange transactions impaired		
As of 30 June 2015, receivables from exchange transactions of R30,964,003 (2014: R 42,351,668) were impaired and provided for.		
The amount of the allowance was R 22,234,479 as of 30 June 2015 (2014: R 24,628,040).		
The ageing of these receivables is as follows:		
3 to 6 months	9,416,831	-
Over 6 months	21,547,172	42,351,668
5. Receivables from exchange transactions		
Consumer debtors	1,293,862	1,429,456
Deposits paid	1,065,192	1,054,884
Dumping site levies	202,921	215,899
Insurance	2,123,590	1,172,336
Leases	1,738,292	1,458,303
Main service contribution	3,352,713	3,352,218
Accrued interest	4,941,930	4,510,765
Sundry receivables	3,947,656	7,026,753
Less: Allowance for impairment	(5,886,615)	(6,815,600)
	12,779,541	13,405,014
Trade and other receivables pledged as security		
During the year no trade and other receivables were pledged as security.		
Trade and other receivables past due but not impaired		
Trade and other receivables which are less than 1 month past due are not considered to be impaired. At 30 June 2015 and 2014 all accounts past due were impaired.		
Trade and other receivables impaired		
As of 30 June 2015, trade and other receivables of R6,692,211 (2014: R 10,842,027) were impaired and provided for.		
The amount of the provision was R 5,886,615 as of 30 June 2015 (2014: R 6,815,600).		
The ageing of these receivables is as follows:		
3 to 6 months	2,847,158	-
Over 6 months	3,845,053	10,842,027
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	(6,815,600)	(4,914,513)
Provision for impairment	838,793	(1,901,087)
Amounts written off as uncollectible	90,192	-
	(5,886,615)	(6,815,600)

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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5. Receivables from exchange transactions (continued)

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 38). For the year under review an amount of R90,192 was written off as uncollectable (2014: R0). The amounts are generally written off when there no is expectation of recovering additional cash.

6. Receivables from non-exchange transactions

Fines	26,514,960	18,788,843
Government grants and subsidies	962,490	-
Health subsidy	11,462,100	11,462,100
Less: Allowance for impairment	(22,003,021)	(16,766,364)
	16,936,529	13,484,579

Receivables from non-exchange transactions pledged as security

During the year no receivables from non-exchange transactions were pledged as security.

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 1 month past due are not considered to be impaired. At 30 June 2015 and 30 June 2014 all accounts past due were impaired.

Receivables from non-exchange transactions impaired

As of 30 June 2015, receivables from non-exchange transactions of R26,514,959 (2014: R 18,788,843) were impaired and provided for.

The amount of the allowance for impairment was R22,003,020 as of 30 June 2015 (2014: R 16,766,364).

Reconciliation of allowance for impairment

Opening balance	(16,766,364)	(8,356,518)
Allowance for impairment	(5,236,657)	(8,409,846)
	(22,003,021)	(16,766,364)

7. VAT receivable

VAT	31,292,987	27,916,416
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The municipality is registered for VAT on the payment basis.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
8. Operating lease asset		
Current asset		
Opening balance	3,342,169	3,526,200
Movement for the year	(1,020,422)	(184,031)
	2,321,747	3,342,169
Minimum lease income due		
- within one year	13,977,126	12,341,574
- second to fifth year	9,753,753	23,655,102
- after 5 years	192,120	267,897
	23,922,999	36,264,573

Included in the operating lease revenue are the following significant contracts:

- Shanduka Coal - Lease of Farms in Middelburg.
The contract expires on 28 February 2017.
Actual income levied 2014/15 R 12,094,613
Expected levy income 2015/16 R 12,751,161
Annual straightlining R 12,636,653
- Pole Add SA (Pty) - Manufacture, erect, maintain street identification signs incorporating with advertisement.
The contract expires on 30 September 2016.
Actual income levied 2014/15 R 96,101
Expected levy income 2015/16 R 105,951
Annual straightlining R 86,938
- MTN (PTY) LTD - Rental of Stand 908 Hendrina for base transceiver sites.
The contract expires on 31 October 2015
Actual income levied 2014/15 R 35,306
Expected levy income 2015/16 R 12,232
Annual straightlining R 24,513
- MTN (PTY) LTD - Rental of the remainder of portion 27 of the farm Middelburg & Townlands 287 JS for telecommunications base station.
The contract expires on 31 August 2016
Actual income levied 2014/15 R 36,400
Expected levy income 2015/16 R 40,040
Annual straightlining R 37,072
- Vodacom Service Provider Company - Rental of portion 170 of the farm Middelburg Town & Townlands 287 JS for base station.
The contract expires on 30 May 2016
Actual income levied 2014/15 R 35,937
Expected levy income 2015/16 R 38,907
Annual straightlining R 35,748
- Vodacom Service Provider Company - Rental of erf 7751 Middelburg ext 23 for base station.
The contract expires on 31 October 2016
Actual income levied 2014/15 R 29,440
Expected levy income 2015/16 R 34,560
Annual straightlining R 30,452

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
9. Investments		
At amortised cost		
ABSA bank	108,000,000	36,000,000
First National bank	72,000,000	36,000,000
Investec bank	86,000,000	116,000,000
Nedbank	72,000,000	66,000,000
Standard bank	72,000,000	96,000,000
	410,000,000	350,000,000
10. Inventories		
Consumable stores	18,227,450	15,502,101
Land	153,138,835	120,042,494
RDP houses	128,952	22,566,526
Water	702,787	312,839
	172,198,024	158,423,960
10.1 Inventory shortages and surpluses		
Inventory shortages written off during the year	(148,992)	(416,436)
Inventory surpluses for the year	123,237	46,790
Inventory pledged as security		
During the year no inventory was pledged as security.		
11. Long term loans		
At amortised cost		
Sale of erven	158,312	286,883
Loans were given at a low interest rate of 7.5% per annum to encourage development through the sale of vacant land. In terms of the MFMA no new loans are granted. The remaining repayment terms vary from 1 - 5 years for the different contracts.		
Non-current assets		
At amortised cost	47,532	84,088
Current assets		
At amortised cost	110,780	202,796
12. Investment property		

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	24,937,113	-	24,937,113	24,937,113	-	24,937,113

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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12. Investment property (continued)

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	24,937,113	24,937,113

Reconciliation of investment property - 2014

	Opening balance	Total
Land	24,937,113	24,937,113

Pledged as security

None of the above investment property has been pledged as security.

Details of property

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

13. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,422,527,205	-	2,422,527,205	2,510,027,798	-	2,510,027,798
Buildings	301,330,489	(102,658,719)	198,671,770	296,324,333	(95,105,028)	201,219,305
Infrastructure	5,314,981,916	(2,570,543,215)	2,744,438,701	5,090,211,577	(2,465,398,499)	2,624,813,078
Community	734,083,564	(229,050,427)	505,033,137	721,468,221	(210,417,490)	511,050,731
Other property, plant and equipment	246,909,331	(144,669,240)	102,240,091	238,021,491	(135,075,733)	102,945,758
Housing development fund	6,742,664	(4,820,400)	1,922,264	6,742,664	(4,680,800)	2,061,864
Total	9,026,575,169	(3,051,742,001)	5,974,833,168	8,862,796,084	(2,910,677,550)	5,952,118,534

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	2,510,027,798	210,129	-	(87,710,722)	-	-	2,422,527,205
Buildings	201,219,305	5,006,156	-	-	(7,174,567)	(379,125)	198,671,769
Infrastructure	2,624,813,078	224,770,339	-	-	(103,418,167)	(1,726,548)	2,744,438,702
Community	511,050,731	12,748,689	(21,928)	-	(16,157,872)	(2,586,484)	505,033,136
Other property, plant and equipment	102,945,759	23,245,101	(2,311,722)	-	(21,170,250)	(468,794)	102,240,094
Housing development fund	2,061,864	-	-	-	(139,600)	-	1,922,264
Total	5,952,118,535	265,980,414	(2,333,650)	(87,710,722)	(148,060,456)	(5,160,951)	5,974,833,170

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	2,542,938,884	70,349,243	-	(103,260,330)	-	-	2,510,027,797
Buildings	186,169,511	21,090,873	-	-	(5,977,269)	(63,810)	201,219,305
Infrastructure	2,548,039,230	183,212,825	(1,555,455)	-	(101,151,101)	(3,732,419)	2,624,813,080
Community	513,426,523	13,655,419	(119,879)	-	(15,649,852)	(261,479)	511,050,732
Other property, plant and equipment	101,176,225	24,264,267	(827,132)	-	(21,616,363)	(51,238)	102,945,759
Housing development fund	2,249,769	-	-	-	(162,524)	(25,382)	2,061,863
	5,894,000,142	312,572,627	(2,502,466)	(103,260,330)	(144,557,109)	(4,134,328)	5,952,118,536

Pledged as security

None of the above property, plant and equipment have been pledged as security.

Assets subject to finance lease (Net carrying amount)

Buildings	765,885	792,263
Other property, plant and equipment	262,279	574,355
	1,028,164	1,366,618

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	86,662,585	8,786,414	2,126,521	97,575,520
Additions/capital expenditure	37,971,353	460,902	19,478	38,451,733
Transferred to completed items	(12,873,599)	(8,786,414)	(363,386)	(22,023,399)
	111,760,339	460,902	1,782,613	114,003,854

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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13. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2014

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	67,751,150	8,820,242	23,720,119	100,291,511
Additions/capital expenditure	26,432,893	3,615,973	782,364	30,831,230
Transferred to completed items	(7,521,458)	(3,649,801)	(22,375,962)	(33,547,221)
	86,662,585	8,786,414	2,126,521	97,575,520

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

14. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	7,266,341	(5,370,697)	1,895,644	15,435,385	(12,603,366)	2,832,019

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	7,266,341	(5,370,697)	1,895,644

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	1,997,858	1,921,635	(95,434)	(992,046)	2,832,013

Pledged as security

None of the above intangible assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

15. Payables from exchange transactions

Trade payables	121,730,945	86,408,350
Sundry receivables paid in advance	604,365	1,258,763
Staff leave	23,002,232	21,455,978
Retentions payable	25,060,367	26,910,138
Third party pre-paid sales in advance	1,777,688	1,478,006
Pre-paid meter sales in advance	3,811,272	3,112,424
Other payables	2,276,385	2,091,632
Consumer receivables paid in advance	6,993,234	9,797,308
	185,256,488	152,512,599

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
16. Payables from non-exchange transactions		
Housing accreditation grant	1,343,965	1,750,950
Informal housing grant (RDP)	139,415	139,415
Other government grants	214,409	214,409
Payable to National Treasury	633,068	802,229
	2,330,857	2,907,003
17. Consumer deposits		
Electricity and water	55,787,172	52,607,145
Sundry	16,165,034	12,322,977
	71,952,206	64,930,122
No interest is paid on deposits.		
Guarantees held in lieu of electricity and water deposits	6,919,889	6,950,292
18. Finance lease obligation		
Minimum lease payments due		
- within one year	191,643	250,137
- in second to fifth year inclusive	111,169	330,949
	302,812	581,086
less: future finance charges	(21,329)	(83,328)
Present value of minimum lease payments	281,483	497,758
Present value of minimum lease payments due		
- within one year	173,542	216,590
- in second to fifth year inclusive	-	281,168
	173,542	497,758
Non-current liabilities	112,457	281,168
Current liabilities	173,542	216,590
	285,999	497,758
It is municipality policy to lease certain photo copiers under finance leases.		
The average lease term was 3-5 years and the effective borrowing rate between 9% - 15% (2014: 9%-15%).		
The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.		
19. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Energy efficient demand site management (EEDSM)	-	4,641,315
Municipal infrastructure grant (MIG)	-	2,049,300
Informal housing grant (RDP)	1,993,207	1,933,474
	1,993,207	8,624,089

See note 31 for reconciliation of grants from National/Provincial Government.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

20. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Church erven	266,788	334,690	(167,428)	-	434,050
Landfill rehabilitation	5,966,069	8,851,294	-	-	14,817,363
Performance bonus	6,538,904	948,426	(2,227,838)	(3,170,649)	2,088,843
	12,771,761	10,134,410	(2,395,266)	(3,170,649)	17,340,256

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Church erven	451,756	134,110	(319,078)	-	266,788
Landfill rehabilitation	-	5,966,069	-	-	5,966,069
Performance bonus	6,053,913	1,333,209	(1,106,998)	258,780	6,538,904
	6,505,669	7,433,388	(1,426,076)	258,780	12,771,761

Non-current liabilities	14,782,318	6,083,929
Current liabilities	2,557,938	6,687,832
	17,340,256	12,771,761

Landfill rehabilitation

The landfill rehabilitation is created for the rehabilitation of the current operational site which is evaluated at each year end to reflect the best estimate at reporting date. The site under consideration is the Middelburg landfill site. The valuation for the landfill site was performed by Mr Seakle Godschalk Pr Sci Nat from Environmental & Sustainability Solutions (ESS). Mr Godschalk is a registered professional environmental scientist with the South African Council for Natural Scientific Professions as well as with the South African Institute of Ecologists and Environmental Scientists.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
20. Provisions (continued)		
The 2015 amount is a discounted amount based on the expected remaining life of the landfill site and based on the size of the area that had been used for waste disposal as at 30 June 2015. The size of the Middelburg landfill site used up until now is approximately 6.7788 ha. The remaining life of the landfill is 9 years. Key financial assumptions used in this calculation were a CPI of 4.1306%, a discount rate of 6.3806% and therefore a net effective discount rate of 2.25%.		
Performance bonus		
The provision is to provide for performance bonuses of the section 57 employees and other senior managers where applicable. The provision is calculated at 14% of the total remuneration in terms of the performance agreements at reporting date which is usually paid within one year.		
Church erven		
The provision on church erven is for the obligation which the municipality have to pay 25% of the purchase price back to the church once the property is fully developed, which is evaluated at the end of each year to reflect the best estimate at reporting date.		
21. Long term liabilities		
At amortised cost		
Standard Bank	2,410,775	6,907,519
Interest at 9.62% redeemable at 01/09/2015		
Infrastructure Finance Corporation	22,298,093	24,450,902
Interest at 9.59% redeemable at 30/06/2022		
Infrastructure Finance Corporation	24,289,855	26,265,393
Interest at 9.29% redeemable at 30/06/2023		
Infrastructure Finance Corporation	26,132,618	27,953,708
Interest at 9.02% redeemable at 30/06/2024		
First National Bank	13,706,189	16,214,739
Interest at 12.50% redeemable at 30/06/2019		
	88,837,530	101,792,261
Total other financial liabilities	88,837,530	101,792,261
Non-current liabilities		
At amortised cost	77,107,026	88,839,531
Current liabilities		
At amortised cost	11,730,504	12,952,730

22. Employee benefit obligations

Defined contribution plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

In-service members are entitled to a post-employment medical aid subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality by ARCH Actuarial Consultants and Actuaries.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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22. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	70,425,000	69,623,708
Benefits paid	(6,209,013)	(7,394,688)
Net expense recognised in the statement of financial performance	9,180,000	8,195,980
	73,395,987	70,425,000

Net expense of the defined benefit obligation recognised in the statement of financial performance

Current service cost	5,379,000	4,401,114
Interest cost	6,513,000	6,083,866
Actuarial (gains) losses	(2,712,000)	(2,289,000)
	9,180,000	8,195,980

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.01 %	9.00 %
Consumer inflation	7.16 %	7.00 %
Medical cost trend rates	8.11 %	8.19 %
Net effective discount rate	0.83 %	0.70 %

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

Amounts for the current and previous four years are as follows:

	2015 R	2014 R	2013 R	2012 R	2011 R
Defined benefit obligation	(73,395,987)	(70,425,000)	(69,623,708)	(74,925,000)	(69,812,000)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits. During the year the contributions expensed for the year amounts to R 39 085 139 (2014 R36 481 886).

23. Long service award

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. The valuation was performed in line with GRAP 25 Employee benefits by ARCH Actuarial Consultants and Actuaries as at 30 June 2015.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
23. Long service award (continued)		
Opening balance	16,746,000	13,740,077
Current service cost	1,645,000	1,448,641
Interest cost	1,358,000	974,639
Benefits vested	(1,816,000)	(1,260,000)
Actuarial gain/(loss)	(2,267,584)	1,842,643
	15,665,416	16,746,000
Current liability	1,170,704	1,816,001
Non-current liabilities	14,494,712	14,929,999
	15,665,416	16,746,000
Assumptions used at the reporting date:		
Discount rates used	8.15 %	8.02 %
Normal salary increase rate	7.00 %	7.37 %
24. Financial instruments disclosure		
Categories of financial instruments		
2015		
Financial assets		
	At amortised cost	Total
Cash and cash equivalents	98,935,106	98,935,106
Consumer receivables	60,533,069	60,533,069
Receivables from exchange transactions	12,779,540	12,779,540
Receivables from non-exchange transactions	16,936,529	16,936,529
Long term loans	158,312	158,312
Investments	410,000	410,000
	189,752,556	189,752,556
Financial liabilities		
	At amortised cost	Total
Payables from exchange transactions	185,256,488	185,256,488
Payables from non-exchange transactions	2,330,857	2,330,857
Consumer deposits	71,952,206	71,952,206
Long term liabilities	88,837,530	88,837,530
Finance lease obligation	285,999	285,999
Provisions	17,340,256	17,340,256
	366,003,336	366,003,336
2014		
Financial assets		
	At amortised cost	Total
Cash and cash equivalents	82,354,766	82,354,766
Consumer receivables	46,422,955	46,422,955
Receivables from exchange transactions	15,715,462	15,715,462

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
Financial instruments disclosure (continued)		
Receivables from non-exchange transactions	13,484,579	13,484,579
Long term loans	286,884	286,884
Investments	350,000,000	350,000,000
	508,264,646	508,264,646
Financial liabilities		
	At amortised cost	Total
Payables from exchange transactions	143,262,790	143,262,790
Payables from non-exchange transactions	2,907,003	2,907,003
Consumer deposits	64,930,112	64,930,112
Long term liabilities	101,792,261	101,792,261
Finance lease obligation	497,758	497,758
Provisions	12,771,762	12,771,762
	326,161,686	326,161,686
25. Housing development fund		
Balance at the beginning of the year	7,061,612	7,061,612
26. Service charges		
Sale of electricity	485,127,054	449,191,695
Sale of water	69,267,051	55,884,517
Sewerage charges	65,266,510	59,951,728
Refuse removal	69,904,155	61,033,051
	689,564,770	626,060,991
27. Interest received - trading		
Property rates	879,034	1,075,633
Services	963,906	718,933
Sundry receivables	268,202	255,975
	2,111,142	2,050,541
28. Investment revenue		
Interest revenue		
Short term investments	14,521,964	16,586,483
Current bank account	9,782,536	5,889,171
	24,304,500	22,475,654

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
29. Other income		
Administration fees	2,744,020	2,685,823
Building plan fees	1,581,428	1,446,113
Cemetery fees	412,494	450,136
Community service fees	720,456	859,209
Connection fees	6,576,173	5,229,523
Dumping site fees	1,076,621	1,080,858
Electricity	39,601	-
Entrance fees	428,154	343,201
ESKOM servitudes	2,348,715	-
Guarantee Keren Kula	1,153,797	-
Insurance claims	8,224,704	2,395,587
Internal fees	42,917	40,385
Main service contribution	4,471,597	6,951,524
Meter testing fees and calls	1,288	-
Option fee	258,324	239,687
Recovery of bad debts	-	71
Recovery of purification cost	586,324	586,324
Sale of erven	35,435,376	74,729,926
Sale of material and supplies	719,823	394,061
Sale of plants	-	580
Skills development fund refund	393,300	604,761
Sundry income	960,540	869,955
	68,175,652	98,907,724
30. Property rates		
Rates received		
Residential	153,306,601	142,160,110
Commercial	113,218,460	107,133,342
Government	15,498,612	14,528,271
Privately owned towns	577,098	604,085
	282,600,771	264,425,808
Valuations		
Residential	18,817,047,700	18,378,050,000
Commercial	1,063,782,000	1,050,372,000
Government	4,935,677,000	4,746,588,500
Privately owned towns	64,475,000	64,780,000
	24,880,981,700	24,239,790,500

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0.011 (2014: R 0.011) is applied to property valuations to determine assessment rates.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
31. Government grants and subsidies		
Operating grants		
Equitable share	103,556,000	92,630,001
Expanded public works programme (EPWP)	806,150	1,136,678
Finance management grant (FMG)	1,600,000	1,956,791
Informal housing grant (RDP)	7,896,377	22,566,526
Municipal accreditation capacity enhancement fund (MACEF)	-	52,226
Municipal infrastructure grant (MIG)	1,858,931	1,610,298
Municipal systems improvement grant (MSIG)	88,534	104,147
	115,805,992	120,056,667
Capital grants		
Energy efficient demand site management (EEDSM)	4,349,483	5,961,387
Expanded public works programme (EPWP)	504,470	485,126
Finance management grant (FMG)	-	122,016
Integrated national electrification programme (INEP)	-	358,385
Municipal accreditation capacity enhancement funding (MACEF)	-	34,375
Municipal infrastructure grant (MIG)	53,435,859	37,547,897
Municipal systems improvement grant (MSIG)	701,420	929,071
Neighbourhood development partnership grant (NDPG)	-	14,784,222
	58,991,232	60,222,479
	174,797,224	180,279,146

Equitable Share

The purpose of this grant is the provision of indigent support through free basic services. Registered indigents receive a rebate of 100% on discounted assessment rates and a monthly subsidy of R454 (2013: R267) on the cost of other services which are funded from this grant. This grant is unconditional.

Finance management grant (FMG)

Balance unspent at beginning of year	-	1,648,907
Current - year receipts	1,600,000	1,550,000
Conditions met - transferred to revenue	(1,600,000)	(2,078,807)
Repaid to National Treasury	-	(948,907)
Recovered by National Treasury	-	(132,001)
Payable to National Treasury	-	(39,192)
	-	-

The purpose of this grant is to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003 and to fund the internship programme.

Other than the unspent amount, the conditions of the grant were met and no funds have been withheld.

Municipal systems improvement grant (MSIG)

Balance unspent at beginning of year	-	300,000
Current - year receipts	934,000	890,000
Conditions met - transferred to revenue	(789,954)	(1,033,218)
Payable to National Treasury	-	(156,782)
Repaid to National Treasury	(144,046)	-
	-	-

The purpose of this grant is to build in-house capacity to perform their functions and stabilise institutional and governance systems.

Other than the unspent amount, the conditions of the grant were met and no funds have been withheld.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
31. Government grants and subsidies (continued)		
Municipal infrastructure grant (MIG)		
Balance unspent at beginning of year	2,049,300	125,751
Current - year receipts	52,283,000	41,756,000
Conditions met - transferred to revenue	(54,332,300)	(39,158,196)
Repaid to National Treasury	-	(125,751)
Payable to National Treasury	-	(548,504)
	<u>-</u>	<u>2,049,300</u>

The purpose of this grant is to construct basic municipal infrastructure to provide basic services for the benefit of poor households.

Other than the unspent amount, the conditions of the grant were met and no funds have been withheld.

Integrated national electrification programme (INEP)

Balance unspent at beginning of year	-	2,102,481
Current - year receipts	-	6,000,000
Conditions met - transferred to revenue	-	(5,961,387)
Repaid to National Treasury	-	(2,102,481)
Payable to National Treasury	-	(38,613)
	<u>-</u>	<u>-</u>

The purpose of this grant is to address the electrification backlog of permanently occupied residential dwellings.

The conditions of the grant were met and no funds have been withheld.

Informal housing grant (RDP)

Balance unspent at beginning of year	1,933,474	-
Current - year receipts	7,896,376	24,500,000
Conditions met - transferred to revenue	(7,836,643)	(22,566,526)
	<u>1,993,207</u>	<u>1,933,474</u>

The purpose of this grant is to provide funding to build capacity to implement level 2 housing accreditation.

Conditions still to be met - remain liabilities (see note 19).

Neighbourhood development partnership grant (NDPG)

Balance unspent at beginning of year	-	3,149,164
Current - year receipts	-	11,637,000
Conditions met - transferred to revenue	-	(14,784,222)
Payable to National Treasury	-	(1,942)
	<u>-</u>	<u>-</u>

The purpose of this grant is to provide municipalities with capital subsidies for property development in townships and new residential neighbourhoods that include the construction or upgrading of community facilities and where appropriate, to attract private sector funding and input.

Other than the unspent amount, the conditions of the grant were met and no funds have been withheld.

Energy efficient demand site management (EEDSM)

Balance unspent at beginning of year	4,641,315	4,999,700
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Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
31. Government grants and subsidies (continued)		
Current - year receipts	(4,349,483)	(358,385)
Payable to National Treasury	(291,832)	-
	<u>-</u>	<u>4,641,315</u>

The purpose of this grant is to enhance energy saving within the municipality area of jurisdiction.

Conditions still to be met - remain liabilities (see note 19).

Expanded public works programme (EPWP)

Balance unspent at beginning of year	-	84,948
Current - year receipts	1,705,000	1,639,000
Conditions met - transferred to revenue	(1,507,809)	(1,621,803)
Repaid to National Treasury	(197,190)	(84,948)
Payable to National Treasury	-	(17,197)
	<u>-</u>	<u>-</u>

The purpose of the grant is to effect a special performance-based incentive provided to provinces and municipalities that contribute to the employment creation efforts of the expanded public works program through the employment of previously unemployed people.

Conditions still to be met - remain liabilities (see note 19).

Provincial health subsidy

Balance unspent/(due) at beginning of year	-	(11,462,100)
Transferred to receivables from non-exchange transactions (refer note 5).	-	11,462,100
	<u>-</u>	<u>-</u>

The purpose of this grant is to fund primary healthcare services. The primary health care services were transferred to the Mpumalanga provincial government on 01 August 2013.

The conditions of this subsidy has been met, but the subsidy has not yet been received.

32. Public contributions and donations

Developer donation	32,933,315	-
Eskom	-	4,348,955
Government donations	17,453	-
Nkangala District Municipality	-	39,474,477
Glencore mine	20,326,761	8,017,040
	<u>53,277,529</u>	<u>51,840,472</u>

No conditions or restriction attached. The assets were fully capitalised on 30 June 2015.

Major classes

Buildings	-	2,697,053
Community assets - park	-	599,927
Community assets - vegetable tunnel	-	6,631,319
Infrastructure - roads	14,706,910	5,431,637
Infrastructure - water	8,194,567	29,078,008
Infrastructure - electricity	17,871,429	-
Infrastructure - sanitation	12,487,170	-
Intangible assets - arial photographs	-	1,392,640
Other assets	17,453	4,357,986
	<u>53,277,529</u>	<u>50,188,570</u>

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
33. Employee related costs		
Workmen's compensation	2,039,112	1,837,428
Unemployment insurance fund	2,041,043	1,965,042
Salaries	212,230,523	203,227,929
Pension fund contributions	38,434,142	35,827,280
Overtime payments	56,311,581	47,942,521
Medical aid	16,490,645	14,784,080
Housing allowances	1,646,687	1,565,377
Group insurance	1,127,481	1,064,372
Cellphone allowances	526,214	502,503
	330,847,428	308,716,532
Municipal Manager: WD Fouche		
Annual remuneration	1,283,305	983,868
Travel allowance	119,249	171,600
Cellphone allowances	20,769	33,336
Contributions to UIF, medical and pension funds	68,883	111,516
Performance bonuses	411,583	-
Other	(4,780)	4,537
	1,899,009	1,304,857
Appointed from 1 February 2012 until 31 January 2015.		
Deputy Municipal Manager: SM Mnguni		
Annual remuneration	986,496	915,379
Travel allowance	194,705	132,000
Cellphone allowances	22,601	19,236
Contributions to UIF, medical and pension funds	25,189	23,588
Other	4,751	4,449
	1,233,742	1,094,652
Acting as Municipal Manager from 1 February 2015.		
Executive Manager Finance: E Wassermann		
Annual remuneration	905,866	841,803
Travel allowance	122,184	108,000
Cellphone allowances	23,280	19,236
Contributions to UIF, medical and pension funds	64,229	59,744
Performance bonuses	99,243	-
Other	4,900	4,588
	1,219,702	1,033,371

Appointed from 1 March 2012 to 28 February 2017.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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33. Employee related costs (continued)

Executive Manager Corporate services: T Mekuto

Annual remuneration	178,640	770,660
Travel allowance	30,000	120,000
Cellphone allowances	5,820	19,236
Contributions to UIF, medical and pension funds	31,287	118,989
Performance bonuses	439,266	-
Other	1,198	4,486
	686,211	1,033,371

Terminated on 30 September 2014.

Executive Manager Public Services: MC Hlatshwayo

Annual remuneration	932,667	865,691
Travel allowance	124,556	120,000
Cellphone allowances	20,544	19,236
Contributions to UIF, medical and pension funds	25,516	23,931
Other	4,812	4,513
	1,108,095	1,033,371

Appointed from 1 March 2013 until 28 February 2018.

Executive Manager Infrastructure Services: NB Thobela

Annual remuneration	789,299	-
Travel allowance	227,346	-
Cellphone allowances	20,594	-
Contributions to UIF, medical and pension funds	21,600	-
Other	81	-
	1,058,920	-

Appointed from 1 July 2014 until 30 June 2019.

Executive Manager Technical facilities: E Warambwa

Annual remuneration	-	279,407
Travel allowance	-	40,000
Cellphone allowances	-	6,412
Contributions to UIF, medical and pension funds	-	17,109
Other	-	1,529
	-	344,457

Terminated on 31 October 2013

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
34. Remuneration of councillors		
Executive Mayor	770,497	724,669
Speaker	621,289	583,908
Chief Whip	583,990	548,719
Mayoral Committee Members	3,503,940	3,292,118
Councillors	12,414,029	11,938,172
	17,893,745	17,087,586
Councillors remuneration is made up of the following:		
Councillors remuneration	11,393,184	10,752,721
Pension contributions	650,998	754,088
Medical aid contributions	447,623	421,533
Travel allowance	4,009,218	3,748,534
Cell phone and other allowances	1,392,722	1,410,710
	17,893,745	17,087,586

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand		2015	2014			
34. Remuneration of councillors (continued)						
2015	Annual remuneration	Travel allowance	Pension contributions	Medical aid contributions	Cellphone and other allowances	Total
Executive Mayor	428,740	186,507	60,849	69,933	24,468	770,497
MAS Masina						
Speaker RM	367,013	149,205	52,918	27,685	24,468	621,289
Xaba						
Chief Whip BP	347,297	139,880	50,180	22,165	24,468	583,990
Ndala						
	1,143,050	475,592	163,947	119,783	73,404	1,975,776
Mayoral committee	Annual remuneration	Travel allowance	Pension contributions	Medical aid contributions	Cellphone and other allowances	Total
Cllr NJ Mahlangu	344,508	139,881	47,948	27,185	24,468	583,990
Cllr EF Mathebu	366,137	139,881	53,504	-	24,468	583,990
Cllr DJ Motsepe	401,275	139,881	-	18,366	24,468	583,990
Cllr SD	397,476	139,881	-	22,165	24,468	583,990
Nkadimeng						
Cllr EP Nkosi	337,651	139,881	48,477	33,513	24,468	583,990
Cllr H Pilodia	343,747	139,881	49,373	26,521	24,468	583,990
	2,190,794	839,286	199,302	127,750	146,808	3,503,940
Part time councillors	Annual remuneration	Travel allowance	Pension contribution	Medical aid contribution	Cellphone and other allowances	Total
Cllr AS Grobler	146,454	55,952	21,402	-	24,468	248,276
Cllr A Struwig	167,856	55,952	-	-	24,468	248,276
Cllr BC Skosana	167,856	55,952	-	-	24,468	248,276
Cllr BH Mokoena	146,454	55,952	21,402	-	24,468	248,276
Cllr B Nene	122,045	46,627	17,835	-	20,990	207,497
Cllr DJ Skhosana	167,856	55,952	-	-	24,468	248,276
Cllr EA Jele	167,856	55,952	-	-	24,468	248,276
Cllr E Du Toit	146,454	55,952	21,402	-	24,468	248,276
Cllr EO Motsepe	107,008	35,669	-	-	16,903	159,580
Cllr GHE Romijn	167,856	55,952	-	-	24,468	248,276
Cllr HF Niemann	146,454	55,952	21,402	-	24,468	248,276
Cllr J Dyason	167,856	55,952	-	-	24,468	248,276
Cllr JM	3,443	1,148	-	-	454	5,045
Motsoeneng						
Cllr J Matshiane	167,856	55,952	-	-	24,468	248,276
Cllr JP Pretorius	146,454	55,952	21,402	-	24,468	248,276
Cllr J Skhosana	167,856	55,952	-	-	24,468	248,276
Cllr KN Monareng	127,407	56,431	18,040	22,409	24,468	248,755
Cllr PP Tau	223,808	-	-	-	24,468	248,276
Cllr KPJ Uys	146,454	55,952	21,402	-	24,468	248,276
Cllr LE Mkhuma	167,856	55,952	-	-	24,468	248,276
Cllr LI Manzini	146,454	56,418	21,402	-	24,468	248,742
Cllr ME Nyambi	167,856	57,335	-	-	24,468	249,659
Cllr MJ Sekgwele	167,856	55,952	-	-	24,468	248,276
Cllr M Mbatiwe	151,211	55,952	-	16,645	24,468	248,276
Cllr MR Mnguni	122,769	57,105	17,808	27,865	24,468	250,015
Cllr NJ Mlambo	167,856	55,952	-	-	24,468	248,276
Cllr NJ Nkambule	37,492	16,065	5,834	5,974	9,951	75,316
Cllr PJ Masilela	167,856	55,952	-	-	24,468	248,276

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand					2015	2014
34. Remuneration of councillors (continued)						
Cllr PM Shongwe	139,008	55,952	-	28,848	24,468	248,276
Cllr P Mobango	167,856	55,952	-	-	24,468	248,276
Cllr PN Sithole	132,804	44,268	-	-	19,405	196,477
Cllr SDM Longman	223,808	-	-	-	24,468	248,276
Cllr SJ Roos	167,856	55,952	-	-	24,468	248,276
Cllr SM Mnguni	146,454	55,952	21,402	-	24,468	248,276
Cllr SM Mogola	167,856	55,952	-	-	24,468	248,276
Cllr SS Zitha	167,856	60,985	-	-	24,468	253,309
Cllr S Wait	167,856	55,952	-	-	24,468	248,276
Cllr TB Mahlangu	167,856	55,952	-	-	24,468	248,276
Cllr TG Ndlangamandla	167,856	55,952	-	-	24,468	248,276
Cllr TN Morufane	55,952	18,651	-	-	8,156	82,759
Cllr TN Van Zyl	167,856	55,952	-	-	24,468	248,276
Cllr TR Langeveld	167,856	55,952	-	-	24,468	248,276
Cllr ZD Mtshweni	167,856	55,952	-	-	24,468	248,276
	6,479,075	2,129,262	230,733	101,741	981,175	9,921,986
Chairpersons	Annual remuneration	Travel allowance	Pension contribution	Medical aid contribution	Cellphone and other allowances	Total
Cllr PM Hadebe	227,098	86,761	33,186	-	28,068	375,113
Cllr SA Lukhele	260,284	86,761	-	-	28,068	375,113
Cllr O Malinga	260,284	86,761	-	-	28,068	375,113
Cllr MTE Mnguni	227,098	86,761	33,186	-	28,068	375,113
Cllr MS Motebu	238,119	94,511	-	22,165	28,068	382,863
Cllr MJ Selala	197,560	75,544	-	29,073	28,068	330,245
Cllr MT Selala	230,903	86,761	-	30,465	28,068	376,197
Cllr PI Thwala	212,949	86,761	30,689	16,645	28,068	375,112
	1,854,295	690,621	97,061	98,348	224,544	2,964,869
35. Depreciation and amortisation						
Property, plant and equipment					149,055,537	145,546,992
36. Impairment of assets						
Impairments						
Property, plant and equipment					5,224,731	4,134,329
During the year assets which were lost or replaced and no longer in use were impaired. These assets remaining service potential to the municipality is R0 as the asset exist anymore.						
37. Finance costs						
Annuity loans					9,682,646	10,938,261
Finance leases					36,170	31,739
					9,718,816	10,970,000

Total interest expenses are calculated using the effective interest rate on borrowings. The interest rate vary between 9% and 13% (2014: 9% to 13%).

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
38. Debt impairment		
Contributions to allowance for impairment	2,060,164	11,448,624
39. Bulk purchases		
Electricity	315,281,581	286,791,142
Water	11,580,356	9,855,531
	326,861,937	296,646,673
Percentage electricity losses	8.45 %	9.40 %
Percentage water losses	29.50 %	25.50 %
40. Contracted services		
Commission fees	6,603,762	5,543,086
Garden waste removal services	6,929,367	2,827,439
Other contractors	11,426,101	11,365,236
Security services	9,498,806	8,759,179
	34,458,036	28,494,940
41. Grants and subsidies paid		
Business linkage centre	280,000	230,000
Forever resorts marathon	30,000	27,000
Free basic services	59,334,388	53,794,301
Property rates rebates	3,092,009	2,677,987
Rotary, schools and other	225,000	63,000
Society for the prevention of cruelty to animals(SPCA)	550,000	475,000
Tourism information centre	280,000	250,000
	63,791,397	57,517,288

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
42. General expenses		
Advertising and publicity	5,042,326	3,604,729
Auditors remuneration	3,814,494	3,713,093
Bank charges	2,356,494	2,216,896
Chemicals	181,197	-
Connection fees	-	16,021,917
Consulting fees	9,152,420	5,085,610
Corporate expenditure	9,700,894	6,803,798
EPWP progames	1,001,312	1,136,678
Entertainment	2,865,787	2,445,159
Fuel and oil	14,494,621	15,536,939
Hire of equipment	2,073,960	2,293,467
Insurance	5,985,686	5,880,461
Inventory expensed	67,464,690	25,161,837
Legal fees	2,540,073	2,704,641
Licensing fees	3,865,255	2,991,977
Loss of inventory	148,992	416,436
Magazines, books and periodicals	212,455	219,253
Materials and supplies	8,757,890	8,761,329
Medical expenses	351,220	157,261
Occupational and safety expenses	279,591	301,261
Postage and courier	1,933,304	1,793,675
Printing and stationery	3,291,968	3,009,600
Engineering studies	2,193,489	-
Rental plants (nursery)	266,416	259,632
Skills development levies	3,081,547	2,864,748
Staff development cost	3,352,854	3,511,348
Staff welfare	777,125	616,295
Subscriptions and membership fees	3,598,151	3,392,091
Telephone and connectivity	4,627,894	3,714,286
Travel and accomodation	14,015,292	13,476,993
Uniforms	2,867,642	3,198,972
Utilities	32,135,129	30,482,655
Ward committee expenses	3,656,718	1,867,411
Write down of inventory to net realisable value	15,335,506	2,966,344
	231,422,392	176,606,792
43. Auditors' remuneration		
Fees	3,814,494	3,713,093

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
44. Cash generated from operations		
Surplus	105,415,676	171,144,783
Adjustments for:		
Depreciation and amortisation	149,055,537	145,546,992
Loss on sale of assets and liabilities	(2,389,321)	(952,413)
Finance costs - Finance leases	(211,759)	31,739
Impairment loss	5,224,731	4,134,329
Movements in operating lease assets and accruals	1,020,422	184,031
Movements in provisions	4,568,495	6,266,092
Other non-cash items	92,311,208	51,840,472
Changes in working capital:		
Inventories	(13,774,064)	(99,871,570)
Receivables from exchange transactions	625,476	1,277,620
Consumer receivables	(7,088,030)	6,776,814
Receivables from non-exchange transactions	(3,451,950)	655,911
Payables from exchange transactions	32,773,691	30,969,367
VAT	(3,376,571)	(25,836,989)
Taxes and transfers payable (non exchange)	(576,146)	114,455
Unspent conditional grants and receipts	(6,630,882)	1,722,643
	353,496,513	294,004,276

45. Prior period errors

The prior year has been amended to account for prior period errors.

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

Refer to note 46 for details on comparative figures.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014		
45. Prior period errors (continued)				
Statement of Financial Performance for the year ended 30 June 2014	Balance as previously reported	Prior period error	Reclassified	Restated balance
Revenue				
Service charges	626,611,035	(550,044)	-	626,060,991
Rental income	29,792,983	-	(255,873)	29,537,110
Interest received - trading	2,050,542	-	-	2,050,542
Income from agency fees	14,574,227	-	-	14,574,227
Licences and permits	8,541,415	-	(100,654)	8,440,761
Other exchange revenue	100,352,539	-	(1,444,815)	98,907,724
Interest received - investment	22,475,654	-	-	22,475,654
Gain on disposal of assets	91,307	-	(91,307)	-
Property rates	264,425,808	-	-	264,425,808
Government grants and subsidies	180,279,147	-	-	180,279,147
Public contributions and donations	50,188,570	-	1,651,902	51,840,472
Fines	14,349,255	-	-	14,349,255
Total revenue	1,313,732,482	(550,044)	(240,747)	1,312,941,691
Expenditure				
Employee related costs	(308,716,534)	-	-	(308,716,534)
Remuneration of councillors	(17,087,586)	-	-	(17,087,586)
Depreciation and amortisation	(145,546,992)	-	-	(145,546,992)
Impairment loss	(7,100,674)	-	2,966,344	(4,134,330)
Finance cost	(10,969,998)	-	-	(10,969,998)
Debt impairment	(11,448,625)	-	-	(11,448,625)
Collection cost	(248,954)	-	-	(248,954)
Repairs and maintenance	(49,666,195)	59,500	-	(49,606,695)
Bulk purchases	(296,646,672)	-	-	(296,646,672)
Contracted services	(28,554,441)	-	-	(28,554,441)
Grants and subsidies paid	(57,517,288)	-	-	(57,517,288)
Contributions to provisions	(16,336,673)	(311,560)	-	(16,648,233)
Operating lease rentals	-	-	(15,557,179)	(15,557,179)
Loss on disposal of assets	(2,597,902)	-	91,307	(2,506,595)
General expenses	(188,369,254)	-	11,762,464	(176,606,790)
Total expenditure	(1,140,807,788)	(252,060)	(737,064)	(1,141,796,912)
Operating surplus / (deficit)	172,924,694	-	-	172,924,694
Surplus / (deficit) for the year	172,924,694	-	-	172,924,694

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand		2015		2014	
45. Prior period errors (continued)					
Statement of Financial Position as at 30 June 2014		Balance as previously reported	Prior period error	Reclassified (note x)	Restated balance
Assets					
Current Assets					
Other receivables from exchange transactions		15,715,462	(2,310,448)	-	13,405,014
VAT receivable		19,806,538	8,109,878	-	27,916,416
Operating lease asset		3,383,107	(40,938)	-	3,342,169
Total current assets		<u>38,905,107</u>	<u>5,758,492</u>	<u>-</u>	<u>44,663,599</u>
Non-current Assets					
Investment property	-	-	-	24,937,113	24,937,113
Property, plant and equipment	<u>,972,493,652</u>	<u>-</u>	<u>4,561,997</u>	<u>(24,937,113)</u>	<u>,952,118,536</u>
Total non-current assets	<u>,972,493,652</u>	<u>-</u>	<u>4,561,997</u>	<u>-</u>	<u>,977,055,649</u>
Liabilities					
Current Liabilities					
Payables from exchange transactions	143,262,790	-	9,249,809	-	152,512,599
Total current liabilities	<u>143,262,790</u>	<u>-</u>	<u>9,249,809</u>	<u>-</u>	<u>152,512,599</u>
Net Assets					
Accumulated surplus - Opening balance	<u>,243,247,132</u>	<u>-</u>	<u>1,070,684</u>	<u>-</u>	<u>,244,317,816</u>
Total net assets	<u>,243,247,132</u>	<u>-</u>	<u>1,070,684</u>	<u>-</u>	<u>,244,317,816</u>
1. Property, plant and equipment and Investment property					
A fence at the Hendrina transfer station was incorrectly expensed to repairs and maintenance instead of being recognised as a capital asset. The amount was R59,500					
Land at an amount of R4,502,497 was not included in the fixed asset register, this was subsequently corrected.					
An amount of R24,937,113 was incorrectly included in Land and subsequently reclassified to Investment property.					
Adjustments affecting the statement of financial position					
Increase in Investment property				-	24,937,115
Decrease in Property, plant and equipment				-	(20,375,118)
Increase in accumulated surplus				-	(4,502,497)
Adjustments affecting the statement of financial performance					
Decrease in repairs and maintenance				-	(59,500)
				<u>-</u>	<u>-</u>

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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45. Prior period errors (continued)

2. Trade and other payables

VAT on expenditure to an amount of R8,109,878 was not captured when the accrual was raised in the prior year, This was subsequently corrected.

The provision for staff leave amounting to R3,111,560 was calculated incorrectly, subsequently the provision was corrected.

An amount of R828,373 relating to water research levies was not paid to the Department of Water Affairs as it was under dispute and is now resolved.

Adjustments affecting the statement of financial position

Increase in trade and other payables	-	(8,109,878)
Increase in VAT receivable	-	8,109,878
Increase in staff leave	-	3,111,560
Decrease in accumulated surplus	-	(3,939,933)

Adjustments affecting the statement of financial performance

Increase in General expenditure	-	828,373
	-	-

3. Other receivables

Main services contributions were overstated with an amount of R1,760,403 and subsequently corrected.

An amount of R549,645 relating to service charges were overstated due to a change in the provision of raw water.

Adjustments affecting the statement of financial position

Decrease in accumulated surplus	-	2,310,448
Decrease other receivables	-	(2,310,448)
	-	-

46. Comparative figures

Certain comparative figures have been reclassified.

[insert reasons for reclassification]

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2014 is disclosed in note 45 - Prior period errors.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
47. Commitments		
Authorised capital expenditure		
Approved and contracted for		
• Land and buildings	-	7,985,100
• Infrastructure	21,879,193	25,483,095
• Community assets	4,371,976	18,702,245
• Specialised vehicles	-	849,300
• Other assets	4,371,396	205,000
	30,622,565	53,224,740
Approved but not yet contracted for		
• Land and buildings	4,000,000	1,220,000
• Infrastructure	1,873,293	11,024,000
• Community assets	140,000	-
• Other assets	344,452	3,422,000
• Specialised assets	740,000	300,000
	7,097,745	15,966,000
Total capital commitments		
Approved and contracted for	30,622,565	53,224,740
Approved but not yet contracted for	7,097,745	15,966,000
	37,720,310	69,190,740
Total commitments		
Total commitments		
Authorised capital expenditure	37,720,310	69,190,740
This expenditure will be financed from		
External loans	29,299,154	44,008,495
Internal generated funds	8,421,156	18,481,330
Government grants	-	6,690,915
Other grants	-	10,000
	37,720,310	69,190,740

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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48. Contingencies

Forthwith is a list of possible liability claims where the outcome was unknown at year end:

1. M.M. Selala on behalf of Phillip Selala - this is a claim in the amount of R175 000 for damages against the Municipality for the injury to his child as result of loose paving.
2. T.A.C. Wesson - this is a claim in the amount of R100 000 for unlawful arrest in a traffic related incident.
3. ABSA Technology Finance Solutions (Pty) Ltd - this is a claim in the amount of R22 000 as the sum owing at the date of termination of the Master Rental Agreement.
4. Steven Mahlangu - this is a claim in the amount of R100 000 for unlawful arrest in a traffic related incident. The matter is referred to insurance.
5. H.E. Scheepers - this is a claim in the amount of R300 000 for unlawful arrest in a traffic related incident. Mr. Scheeper's attorney is awaiting outcome of criminal appeal before deciding whether to pursue with the civil claim against the Municipality or not. The matter is referred to Council's insurance.
6. J.B. Mahlangu - this is a claim in the amount of R50 000 wherein the fire department vehicle negligently collided with a minibus taxi. The matter is referred to Council's insurance.
7. F. De Beer – this is a claim in the amount of R13 690 instituted against the Municipality for damage caused by a pothole to a motor vehicle on corner Cowen Ntuli & Walter Sisulu Street. The matter is referred to Council's insurance.
8. Lurco Investment (Pty) Ltd – this is a claim in the amount of approximately R500 000 for an appeal hearing against the Municipality's decision not to approve the re-zoning application. Mpumalanga Township Board made a recommendation to uphold the appeal and to grant a High Court costs order against the Municipality. Should the MEC for Mpumalanga Provincial Government Department of Agriculture and Land Administration agree with the recommendation, costs to the amount of approximately R500 000 will be payable.
9. South African Local Authority Pension Fund - this is a claim in the amount of R76 268 being the amount paid to the beneficiary by the fund as a result of the failure by Municipality to timeously submit the claim forms. The matter is defended by Council's attorneys.
10. S.van Zyl - this is a claim in the amount of R200 000 for unlawful arrest in a traffic related incident. The matter is referred to insurance.
11. P.W. Botha & Others - this is a claim in the amount of R352 500 for unlawful arrest in a traffic related incident. The matter is referred to insurance.
12. S. van Vreden - this is a claim in the amount of R1 343 102 for damages, pain and suffering and loss of income due to alleged negligence by the Municipality.
13. Triple E Training Holdings (Pty) Ltd - this is a claim in the amount of R12 938 for damages for services rendered (Adult Basic Education and Training). The matter is defended by Council's attorneys.
14. S. Moroamoche - this is a claim in the amount of R72 700 against the Municipality for damage to a vehicle in an accident. The matter is defended by Council's attorneys.
15. E'Mhluzi Mall - this is a civil claim in the High Court for an approximate amount of R3 million or for retransfer of property to the Municipality. The matter is defended by Council's attorneys.
16. M.B. Lehwelere - this is a claim in the amount of R50 000 against the Municipality for damages after the claimant was dismissed at a disciplinary hearing during August 2006. The matter is defended by Council's attorneys.
17. C. van Rensburg - this is a claim in the amount of R100 000 against the Municipality for damages after a wheel dislodged from a vehicle which was driven by a Council employee on 15 May 2008. The matter is referred to insurance.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
48. Contingencies (continued)		
18.	Zurich Insurance Company on behalf of A.N. Strydom - this is a claim in the amount of R76 867 against the Municipality for damage to a vehicle in an accident. The matter is defended by Council's insurers.	
19.	B. Chego - this is a claim in the amount of R100 000 against the Municipality for damage to a vehicle in an accident. The matter is defended by Council's insurers.	
22.	C.J. Du Bruyn on behalf of V. Du Bruyn (minor) - this is a claim in the amount of R250 273 against the Municipality for negligence. The matter is defended by Council's insurers.	
21.	P.B. Siziba on behalf of P.M. Siziba (minor) - this is a claim in the amount of R505 000 against the Municipality for negligence. The matter is defended by Council's insurers.	
22.	A.F. Talane - this is a claim in the amount of R50 000 against the Municipality for unlawful arrest. The matter is defended by Council's insurers.	
23.	E.B. Mahlangu - this is a claim in the amount of R50 000 against the Municipality for unlawful arrest. The matter is defended by Council's insurers.	
24.	M.P. Kunneke - this is a claim in the amount of R1 000 000 against the Municipality for negligence. The matter is defended by Council's insurers.	
25.	Prestige Events - this is a claim in the amount of R682 438 against the Municipality for damages arising from the breach of contract. The matter is defended by Council's attorneys.	
26.	D. Coetzee - this is a claim in the amount of R250 000 against the Municipality for unlawful arrest. Letter of demand referred to Council's insurers.	
27.	J.N.H. Grobler - this is a claim in the amount of R430 518 against the Municipality for unlawful arrest and damage to vehicle. Matter referred to Council's insurers.	
28.	J.M. Ravele - this is a claim in the amount of R89 508 against the Municipality for negligence or failure to exercise care towards the plaintiff. Matter referred to Council's insurers.	
29.	N.L. Mogashoa - this is a claim in the amount of R14 285 against the Municipality for damage to vehicle as a result of collision with municipal vehicle. Matter referred to Council's insurers.	
33.	E. Booysen - this is a claim in the amount of R1 000 000 against the Municipality for negligence due to failure to put up a cul-de-sac sign.	
31.	Nashua Mobile – this is a claim in the amount of R132 481 for non-payment of invoice due to dispute on possible fraud. The matter is referred to council's attorneys.	
32.	Federale Stene - this is a claim in the amount of R5 691 064 against the Municipality for the failure to rehabilitate a landfill site. The matter is defended by Council's attorneys.	
33.	Telkom SA SOC LTD - this is a claim in the amount of R37 910 against the Municipality for damaging communication infrastructure at Shanduka Mine Offices.	
34.	G.M. van Vuuren - this is a claim in the amount of R 2 150 for damages to his motor cycle caused by broken glass on the street.	
35.	Ms. N. Nkosi - this is a claim in the amount of R73 750 against the Municipality for damages to property caused by a burst water pipe.	
36.	Mr. R. Sindane - this is a claim in the amount of R20 000 for damages to property caused by a burst water pipe.	
37.	Ms. M. Hlatshwayo - this is a claim in the amount of R20 000 for damages to property caused by a burst water pipe.	
38.	Ms. D.S. Mphahlele - this is a claim against the Municipality for damages to property caused by storm water.	

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
48. Contingencies (continued)		
39. Ms. E.Q. Mohoto - this is a claim in the amount of R6 000 against the Municipality for injuries sustained after she fell in a hole while walking on a sidewalk.		
40. Mr. R.L. Modishane - this is a claim in the amount of R6 005 against the Municipality for damages to electronic equipment caused by a power surge.		
41. Mr. P. Phetla - this is a claim in the amount of R16 864 against the Municipality for damages to his vehicle after colliding with a Municipality vehicle.		
42. Mr. K.M. Skosana - this is a claim in the amount of R200 000 against the Municipality for being assaulted by traffic officers.		
43. Telkom - this is a claim in the amount of R30 050 against the Municipality for damages caused to 12 fibre optic cables near Hendrina Power Station.		
44. Mr. M. Mathunyane - this is a claim in the amount of R19 904 against the Municipality for damages caused to his vehicle after colliding with a Municipality vehicle.		
45. Mr. M.J. Letsoalo - this is a claim in the amount of R50 822 against the Municipality for damages to property caused by a burst water pipe.		
46. Mr. F.J. Venter - this is a claim in the amount of R20 006 against the Municipality for damages to his vehicle after colliding with a Municipality vehicle.		
47. P.W. Saayman - this is a claim in the amount of R5 023 against the Municipality for the loss of a JoJo tank after it got burnt in a veld fire started by Council fire fighters.		
48. Telkom SA SOC LTD - this is a claim in the amount of R21 532 against the Municipality for damages caused to a Telkom manhole.		
49. N.S. Archer - this claim is in the amount of R2 148 against the Municipality for food that got spoiled as a result of a 2 day long power outage.		
50. F.K. Mahlangu - this claim is in the amount of R4 104 against the Municipality for injuries sustained and loss to his phone after falling into a hole on the sidewalk at Mankge Street.		
51. A. Ntamele - this is a claim in the amount of R400 000 against the Municipality for being shot by a traffic officer for no reason.		
52. A.P. Samasuwo - this is a claim in the amount of R400 000 against the Municipality for being shot by a traffic officer for no reason.		
53. D J Swanepoel and Associates (on behalf of Du Plessis) HBN893MP - this is a claim in the amount of R14 228 against the Municipality for damages caused to the third party's vehicle after colliding with a municipal vehicle.		
54. Sithole B M - this is a claim in the amount of R24 267 for damages to vehicles as a result of collision with the municipal vehicle. Matter referred to Council's insurance.		
55. T J van Dyk - this is a claim in the amount of R70 000 for unlawful arrest. Matter referred to Council's insurance.		
56. M P Naidoo - this is a claim in the amount of R9 785 for damages to vehicle by a pothole. Matter referred to Council's insurance.		
57. E J Joubert - this is a claim in the amount of R780 098 for injury as a result of falling into a manhole. Matter referred to Council's insurance.		
58. M G de Koker - this is a claim in the amount of R16 500 for injury as a result of falling into a manhole. Matter referred to Council's insurance.		

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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49. Related parties

Relationships	
Accounting Officer	Refer to Accounting Officer's report note
Key management	Refer to note 33
Councillors	Refer to note 34

50. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital..

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 19, cash and cash equivalents disclosed in note 3, and equity as disclosed in the statement of financial position. There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	143,616,223	2,078,421	25,060,367	23,002,232
Payables from non-exchange transactions	4,785,361	139,415	1,558,374	-
Long term liabilities	11,648,010	10,229,381	33,186,438	33,773,693
At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	93,944,968	1,263,258	26,910,138	21,144,418
Payables from non-exchange transactions	2,907,003	-	-	-
Consumer deposits	-	-	-	64,930,122
Long term liabilities	12,952,730	19,020,212	42,921,432	15,645,581
Finance lease obligation	216,590	2,773	3,778	-

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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50. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. Sales to customers are settled in cash or using credit cards.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2015	2014
Cash and cash equivalents	98,935,106	82,354,766
Consumer receivables	82,767,546	71,050,995
Receivables from exchange transactions	18,666,156	22,531,062
Receivables from non-exchange transactions	38,939,550	30,250,943
Long term loans	158,312	286,884
Investments	410,000	350,000,000

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain all of its borrowings in fixed rate investments.

51. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

52. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

53. Unauthorised expenditure

Municipal governance and administration	33,716,842	8,977,379
Housing services	26,820,487	-
Waste management	4,704,528	-
Property services	-	17,919,826
Community and public safety	14,579,111	7,540,179
Economic and environmental services (capital)	1,762,116	-
Trading services (capital)	3,704,542	-
	85,287,626	34,437,384

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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53. Unauthorised expenditure (continued)

The above unauthorised expenditure within the votes is as a result of year-end accounting transactions not budgeted for. This unauthorised expenditure will be tabled in a special adjustment budget when the annual report is tabled in accordance with section 23(6) of the Budget and Reporting Regulations. Despite the overspending on the above votes, the total approved expenditure did not overspend.

54. Fruitless and wasteful expenditure

Opening balance	294,465	296,165
Additions	124,556	-
Accommodation	-	(1,700)
Written off by Council	(292,765)	-
	<u>126,256</u>	<u>294,465</u>

The double booking for accommodation was written off by Council. The strategic legotla was for accommodation booked which was not used by delegates and not cancelled prior to the event. Interest was levied on a Eskom invoice which was not paid by due date. The envirofill is for a payment made into a fraudulent bank account. The outcome of the investigation is finalised and written off by Council. Council appointed a travel agent to arrange bookings for the municipal strategic legotla. The agent failed to pay the venue and as a result legal action was instituted against Council. This resulted that Council had to make another payment and this cases are still pending.

55. Irregular expenditure

56. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

57. Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

Membership fees payable	358,177	2,347,432
Amount paid - current year	(358,177)	(3,247,432)
	<u>-</u>	<u>(900,000)</u>

Audit fees

Current year fee	4,571,294	4,271,404
Amount paid - current year	(4,571,294)	(4,271,404)
	<u>-</u>	<u>-</u>

PAYE and UIF

Current year payroll deduction (PAYE)	43,605,971	39,351,475
Current year payroll deduction (UIF)	4,090,075	3,934,812
Amount paid - current year (PAYE)	(43,605,971)	(39,351,475)
Amount paid - current year (UIF)	(4,090,075)	(3,934,812)
	<u>-</u>	<u>-</u>

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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57. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and medical aid deductions

Current year payroll deduction (Medical aid)	28,593,440	25,418,577
Current year payroll deduction (Pension fund)	54,345,203	36,481,886
Amount paid - current year (Medical aid)	(28,593,440)	(25,418,577)
Amount paid - current year (Pension fund)	(54,345,203)	(36,481,886)
	<u>-</u>	<u>-</u>

VAT

VAT receivable	<u>31,292,987</u>	<u>27,916,416</u>
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All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor O Malinga Account 34-2195-1X	931	4,378	5,309
Councillor MN Mathibela Account 21-0093-7X	-	3,439	3,439
Councillor PP Tau Account 89-2480-3X	-	5,497	5,497
	<u>931</u>	<u>13,314</u>	<u>14,245</u>

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr EA Jele Account 2362233X	422	303	725
Cllr EA DM Longman Account 9700922X/9930472X	767	-	767
Cllr O Malinga Account 3421951X	462	1,586	2,048
Cllr PJ Masilela Account 6410916X/1239713X/6600878X	1,177	-	1,177
Cllr LE Mkhuma LE Account 6501995X/6602957X	665	-	665
Cllr MJ Selala Account 8045007X	174	-	174
Cllr DJ Skhosana Account 2380965X	498	-	498
Cllr PP Tau Account 8924803X	5,650	5,558	11,208
Cllr SS Zitha Account 2378059X	196	-	196
	<u>10,011</u>	<u>7,447</u>	<u>17,458</u>

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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57. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

Paragraph 13(c)(iii) of Government Gazette No. 27636 issued on 30 May 2005 indicates that a supply chain management policy must state that a municipality or municipal entity may not consider a written quotation or bid unless the provider who submitted a quotation or bid has indicated whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months..

Paragraph 45(a),(b) &(c) of Government Gazette No. 27636 issued on 30 May 2005 states that the notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months.

Emergency

Kgapo Electrical Contractors - brother work for municipality	-	132,389
Payati Business Enterprise - wife work for municipality	176,117	160,433
Tsoga Mothea Trading & Projects - wife work for Sekhukune District Municipality	116,375	162,251
Dikoloi Gerbox & Diff - brother work for SAPS	-	45,486
Lefatshe La Rona Trading - wife is a teacher.	29,900	29,500
Matlapeng - Mahuma Construction CC - wife work for the department of international relations	-	245,504
H2R maintenance - mother in SAPS	-	6,071
Lifting operator training centre - wife is a teacher	-	6,270
Manico test station - relative working for public works.	-	13,300
Izwe-Libanzi Developments Consultants - relative work for department of health	9,882	224,748

Sole supplier or agent

Mpumanzi Group - wives of director are a teacher	-	303,163
Karen Sub Development - husband work for mpumalanga provincial department	-	149,454
Live Life Love Water - daughter work for municipality.	86,033	121,220
Madifahlo Event Co-ordinators - farther work for department of housing	-	4,000

Impossible or impractical

Tenemo General Dealer (Pty) Ltd - Sister Dept of Health	141,785	-
Vutivictory (Pty) Ltd - Husband works at EES Department	27,600	-
Pro Video Foto Express - Relative works at IT Department	7,620	-
	595,312	1,603,789

58. Budget differences

Material differences between budget and actual amounts

Rental of facilities - Actual expenditure on buildings resulted in lessor rentals to be charged for departments.

Public contributions - Revenue recognised for assets donated by private developers.

Interest received - Higher interest received on investments due to increased prime rate and cash on hand.

Licenses and permits - More licenses and permits issued than budgeted.

Other income - Increase revenue as a result of insurance claims and dumping site levies.

Debt impairment - Increase debt impairment realised for traffic fines.

Finance charges - New external loan take up did not realised resulting that no additional interest was payable.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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58. Budget differences (continued)

Changes from the approved budget to the final budget